

ANNUAL BUDGET PROCESS OVERVIEW

Annual Budget Development Process



| | |
|--------------|---|
| Sept-January | Develop Base Budget |
| October | Mayor's Shortfall Budget Advisory Group Public Meetings |
| November | Preliminary 5-Year General Fund Forecast Released |
| January | Community Survey & Neighborhood Association Workshop |
| February | Final 5-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program Released Council Review of Community Feedback Council Priority Setting Study Session |
| March | 1 st Annual District 6 Budget Meeting Mayor's March Budget Message Released |
| April/May | Proposed Operating/Capital Budgets and Fees & Charges Released 3-year GF Structural Deficit Elimination Plan 20-30 people |
| May | Budget Study Sessions/Public Hearings Manager Budget Addendums and Council Budget Documents |
| June | Mayor's June Budget Message Released City Council Final Adoption of Budget |

ANNUAL BUDGET PROCESS OVERVIEW

Annual Budget Development Process with Reed Reforms



| | |
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ANNUAL BUDGET PROCESS OVERVIEW

Community Based Budgeting Process

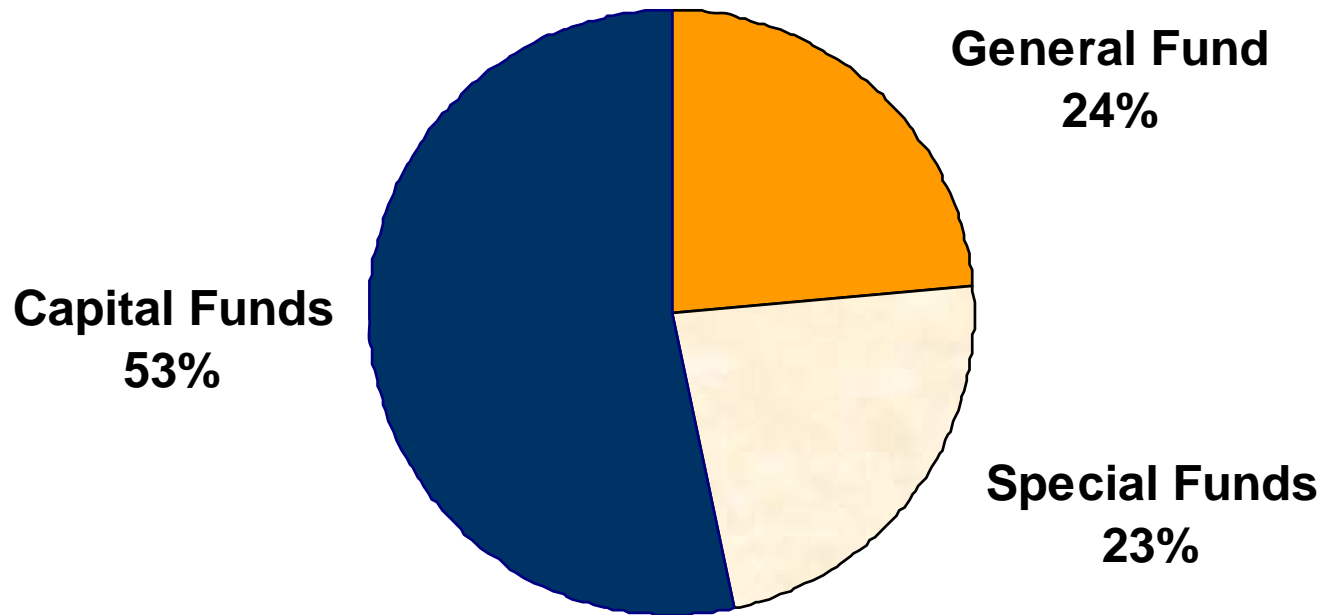


- With adoption of Reed Reforms, budget process expanded to solicit and incorporate community input
- Telephone survey
- Neighborhood Association Priority Setting Session
- City Council Priority Setting Session
- Budget Study Sessions and Public Hearings

GENERAL FUND OVERVIEW

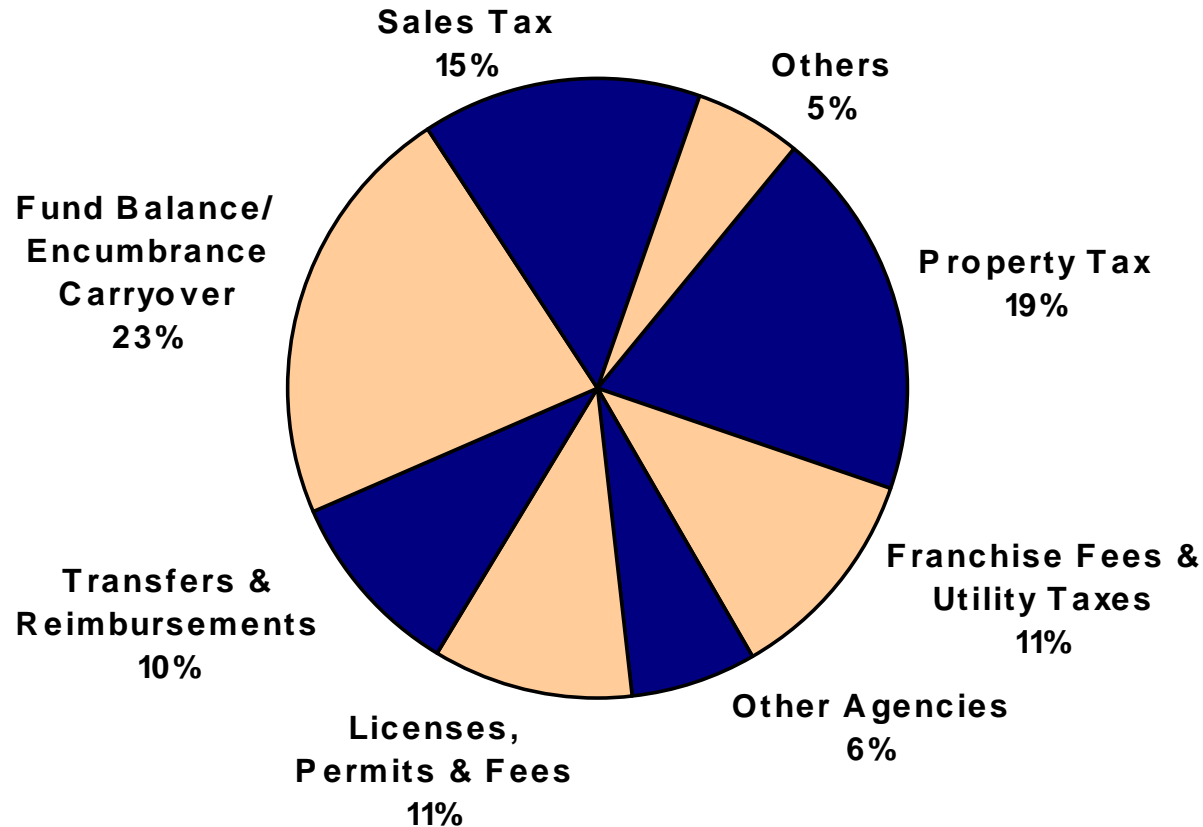
City of San José Budget Overview

| | |
|--------------------------------|---------------|
| 2007-2008 ADOPTED CITY BUDGET: | \$3.7 billion |
| TOTAL NUMBER OF FUNDS: | 112 |
| TOTAL NUMBER OF EMPLOYEES: | 6,992 |



GENERAL FUND OVERVIEW

Sources of General Fund Revenues



2007-2008 Adopted Budget



Property Tax



On a \$10,000 Property Tax Bill

\$5200

School District



\$1200

County

\$1200

RDA

\$900

Community College

\$600

Special Districts

(Water, Fire, Sanitary, Resource Conservation)

\$900

City of San Jose



Fairmont Hotel Property Assessed Value

1985 = \$1.3 Million appraisal

\$13,000 in Prop Tax = \$1170 for SJ



Current Assessed Value = \$47.7 Million

Tax Increment Differential = \$46.4 Million

Before \$1170 for SJ now \$460,000 for RDA





Sales Tax

8.25% Sales Tax

5.50% State

.75% County

.50% VTA (Buses, Light Rail, BART?)

.50% County Public Safety Fund

1.00% San Jose



Spend \$100 on a taxable item city gets \$1.

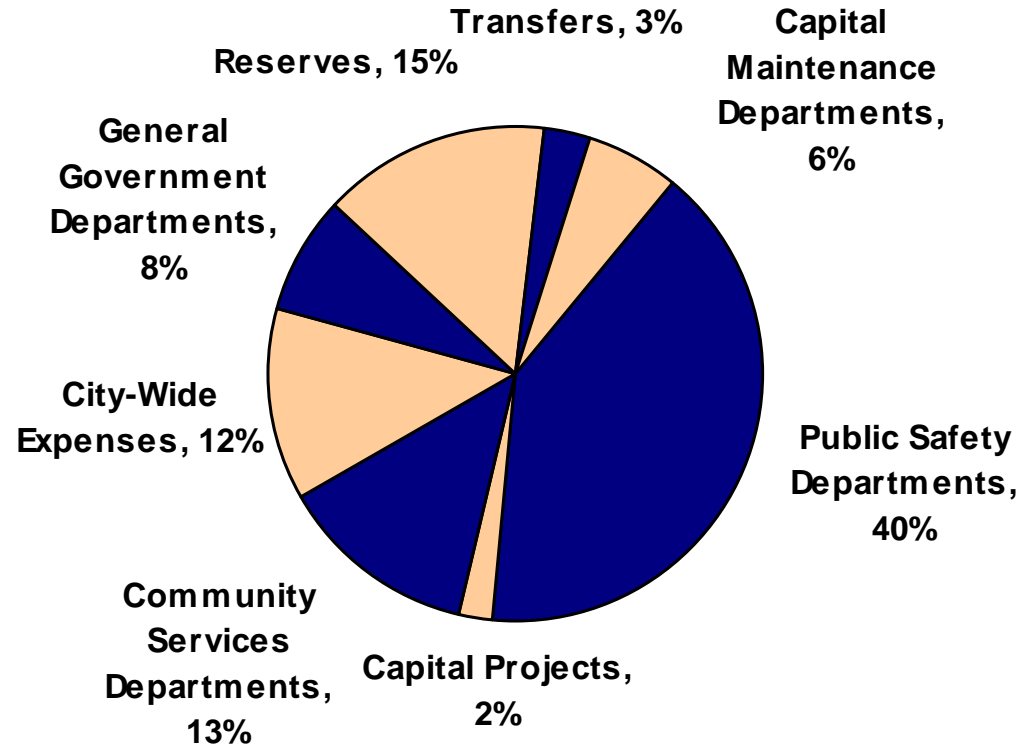
Construction & Conveyance Tax

- 64% Parks (Land, Equipment, Design)
- 14.22% Libraries (Books, Computers)
- 8.78% Service Yards
- 8.4% Fire (Equipment, Remodels)
- 3.4% Communications (Equipment)
- 1.2% Park Yards



GENERAL FUND OVERVIEW

Uses of the General Fund (by Operations)



2007-2008 Adopted Budget



Budgeted Total Compensation Costs

comparison 2000-2001 and 2007-2008

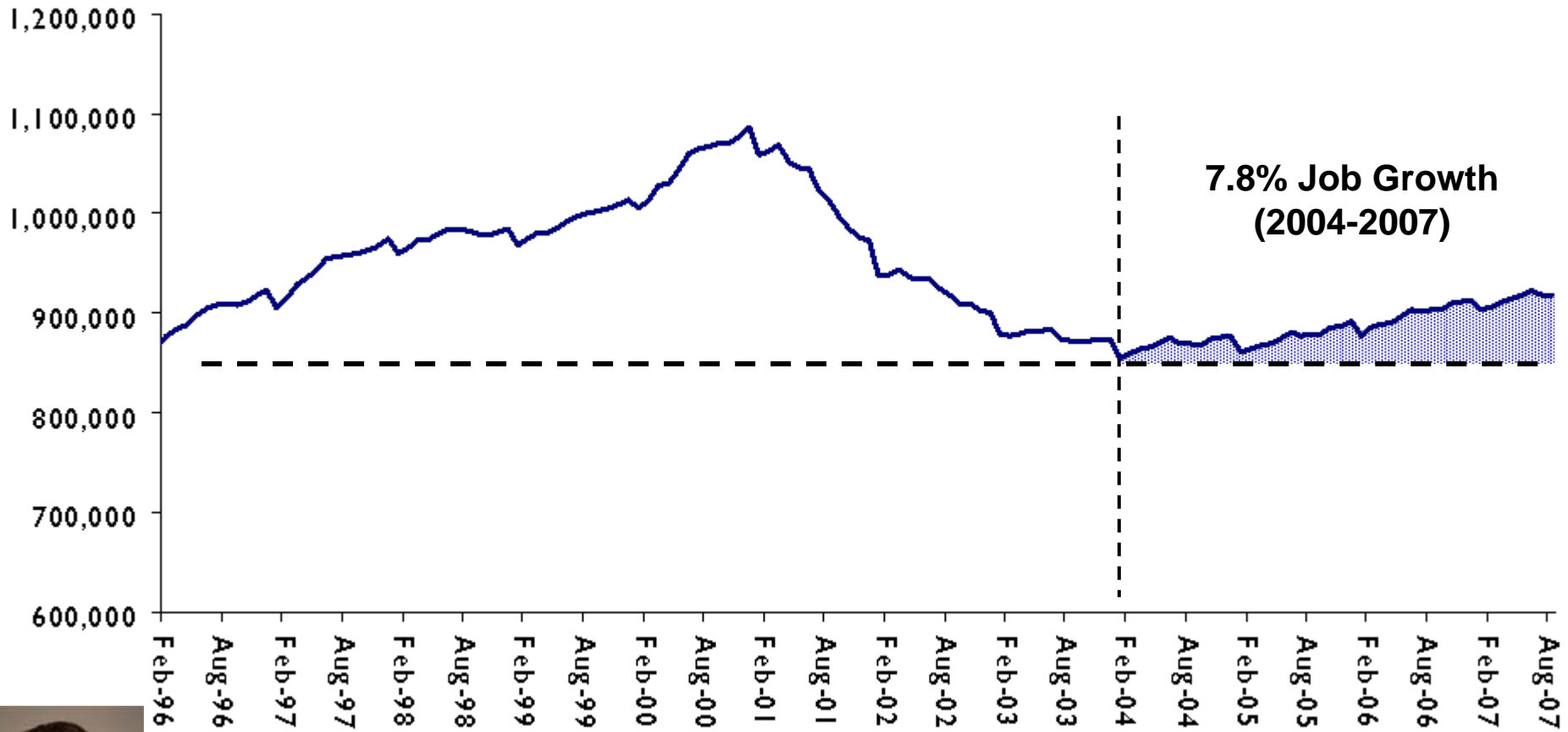
| | | |
|------------------|---------------|---------------|
| • Base Payroll | \$416,010,420 | \$575,648,545 |
| • Retirement | \$63,054,083 | \$134,758,722 |
| • Medical | \$30,317,792 | \$63,488,598 |
| • Other Benefits | \$6,608,312 | \$12,195,339 |
| • Total | \$515,990,607 | \$786,091,204 |

| | | |
|-----|------|------|
| FTE | 7012 | 6992 |
|-----|------|------|

52.35% increase



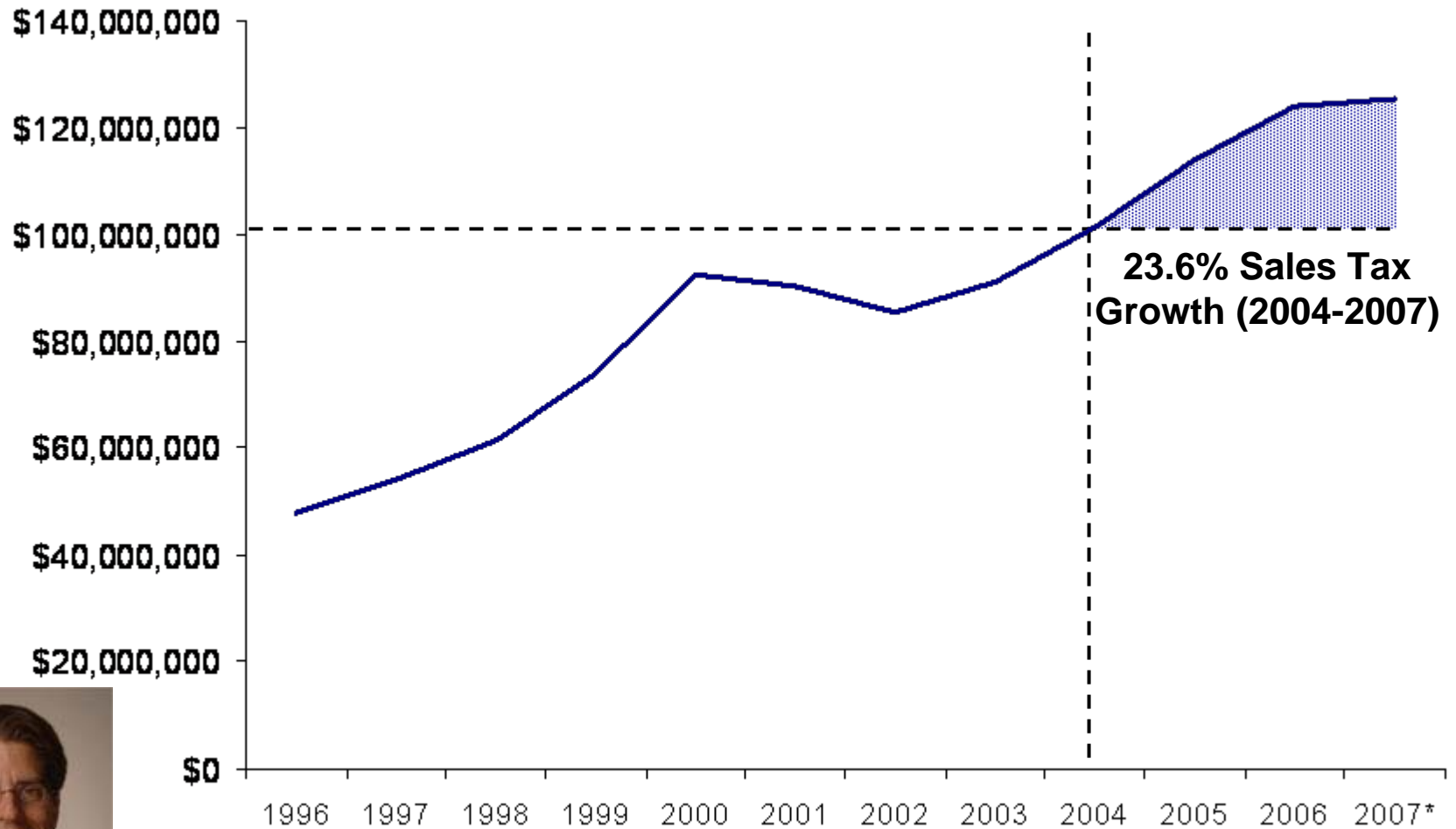
Economic Recovery: Stable Job Growth Since 2004



*Total jobs still below 1998 levels

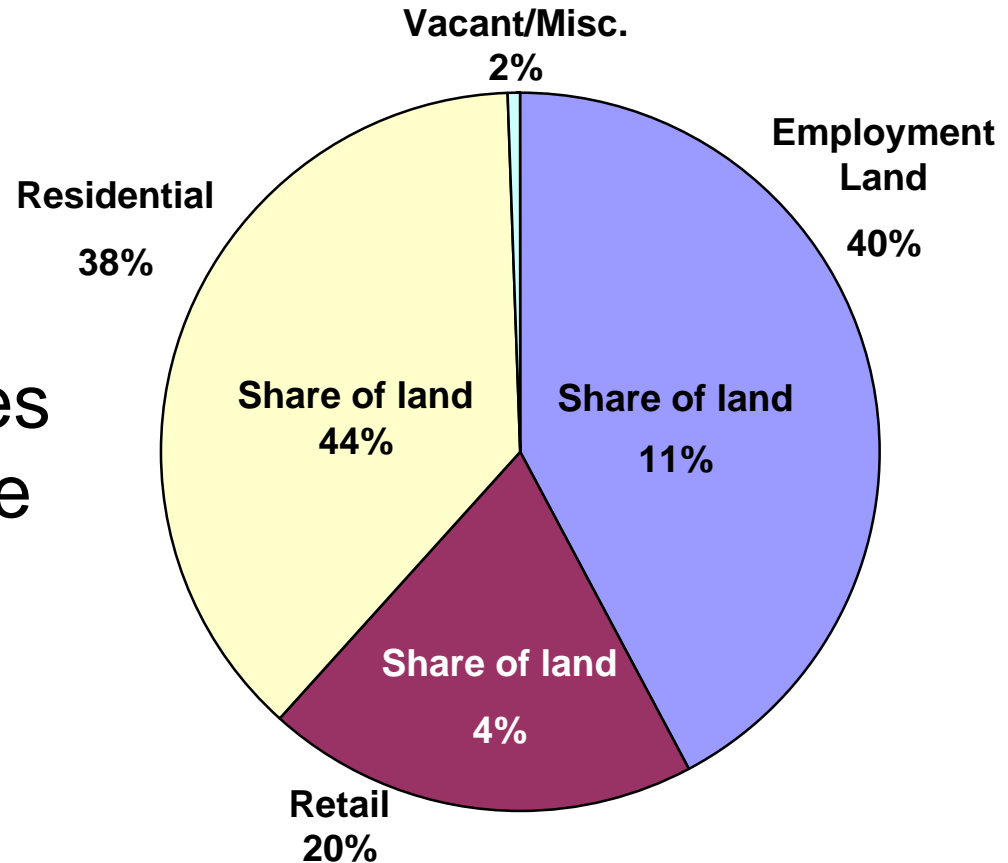


Economic Recovery: Sales Tax Growth Since 2002



Importance of Employment Lands to City Revenues

Employment lands
contribute 60% of revenues
from 15% of the land base



*City and Agency Revenue Included: Property Tax, TIF, TOT, Sales Tax, Utility Tax, Gaming Tax

Highest Revenue Impact: Retail Development



- Expanded Retail Attraction Efforts: Anchor Retail Facilitation, Shopping Center Expansion, Auto Row Strategy



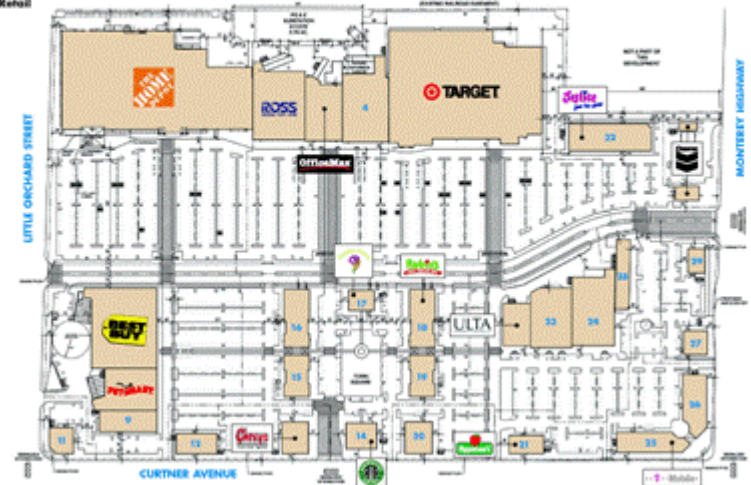
Westfield
Valley Fair
Expansion



SUMMARY

| | | | |
|-------------------|--------------|------------------------|--------------|
| SITE AREA | ±55.37 acres | TOTAL PARKING PROVIDED | 2,954 Cars |
| BUILDING COVERAGE | 646,000 sf | PARKING RATIO | 4.6/1,000 sf |

■ Retail



The Plant

Retail Development Challenges

- Lack of available sites (4% of land dedicated to retail)
- Community resistance to large-format tenants
- Limited dedication of resources slows projects through development process
- Policy decisions choosing residential over retail



How to Close a \$25M budget shortfall?

- Build 5 Valley Fair Malls (250 acres)\$22.5M-23.5M
- Build 8 Oakridge malls (400 acres)\$24M-24.3M
- Build 12 Santana Rows (480 acres)\$24M-\$26.2M
- Build 4 Capitol Auto Rows
- 5 Large format retailers equals the same tax generation of all 9 RDA Neighborhood Business Districts combined
- One Santana Row equals the same sales tax generation of the Downtown Core RDA area
- 2 large format retailers equals the same sales tax generation of San Jose's 50 largest sales tax generating restaurants





General Fund Structural Deficit

(\$ in Millions)

| | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 | Total |
|---|---------------|---------------|--------------|----------------|----------------|
| Projected Shortfall (Feb 2008 Forecast) | \$25 | \$42.5 | \$5.5 | \$4.8 | \$75.1 |
| Unmet/Deferred Infrastructure & Maintenance Needs* | \$39.7 | - | \$3.2 | (\$2.7) | \$40.2 |
| GASB 43/45 (General Fund Retirement Benefits)** | \$21.6 | - | - | - | \$21.6 |
| | | | | Total | \$136.9 |

* Assumes one-time needs of over \$500 million in the General Fund (\$900 million all funds) are addressed.

** City's 50% of General Fund portion of remaining annual requirement for full pre-funding (\$57.4 million); current annual City/employee contribution at \$43.9 million.

Spend Wisely

- RECS Software
 - Original request was \$1,600,000 No ROI
 - After asking questions and staff rising to challenge w/ ROI?
 - \$125,000
 - Savings of \$1,475,000 from Original Proposal





Questionable Spending?

- Los Lagos Golf Course 2995 Tuers Rd
 - \$24m to build out
 - Operates at a loss each year for last 10 yrs
 - 200 acres
 - Examine city assets

\$2,260,000 for Nets

Feb 26, 2008



Alternatives

- Raise Taxes 12-18 months
- Service Reductions Immediate
- Cost Savings Immediate to 2 yrs
- Economic Development 2-5 yrs
- Service Delivery Model 1-4 yrs





Revenue Strategy

- Extend 911 Fee \$23.4m
- Net Present Value Financing \$1.7-5m
- Ensure City Fees Cover Costs \$2-9m
- Raise Biz Tax \$6-10m
- Raise Utility Tax (Green) \$8-39m
- Lighting & Landscape Districts \$3-11m
- Parcel Tax Public Safety \$14-38m
- Increase Hotel Tax & move to GF \$4-11m



Service Reductions

- Community Facility closures
- Reduction in library branch hours & services
- Decrease park maintenance
- Longer response time for code enforcement, graffiti removal, fewer streets paved, etc...reduce by \$25m
- Reduction in long-range planning efforts

Service Reductions Alternatives

- Have city staff take a time off without pay
- All funds, All Staff 1 day equals \$3m, week equals \$15m
- Just General Fund staff including sworn: \$2.2m a day, \$11.1m a week
- All funds, All non-sworn: \$1.04m a day, \$5.2m a week
- Meet and Confer





Costs Savings & Shifts

- Shift Tobacco Money to GF \$5-9m
- Reduce Workers Comp & Overtime \$3-4m
- Shift C&C money to O&M \$6-12m
- Reduce rate of increase to comp \$6-10m
- Increase time to reach Max Comp \$1.9m
- Reduce comp for popular jobs \$.7-1.7m
- Health Care Plan Changes \$1-4m
- Reduce Sick Leave Payout \$1.8m



Service Delivery Model Changes

- Rigorous Asset Management \$3.3-5m
- Merge RDA & OED \$2.2m
- Revise Competition Policy \$8-13m
- More Civilians for Police & Fire \$.5-1.5
- Change Minimum Staffing for Fire \$TBD
- Employee Suggestions \$0-1m
- Eliminate Binding Arbitration \$Future



Other ideas

- Require Downtown Biz to pay a portion of police budget or get RDA to pay for police
- Use as much RDA \$ as legally possible to pay for things other than capital
- \$10 yr parcel tax for infrastructure
- Reduce the Budget Reserves
- Increase penalties for code enforcement violations

Other Ideas Cont

- City Auditor to Audit Budget
- Decide excess fund balance in June
- Join other Govts to leverage buying power
- Wellness programs to reduce Health costs
- Hire person only to do Grant Writing
- Buy San Jose campaign
- RDA money only on Econ Dev



Other Ideas Cont

- Defer ALL capital projects
- Capital projects should include O&M
- Assessment Districts by Neighborhood
- Finance road paving by developer fees
- Land use should be revenue neutral
- Seek changes in State Law



Your comments & questions

- Brevity is beautiful
- Let everyone get a chance
- Come around again for more questions

